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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	
Access Charge Reform	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94-1
Transport Rate Structure and Pricing	CC Docket No. 91-213
End User Common Line Charges	CC Docket No. 95-72

JOINT COMMENTS OF THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AND THE INTERNET ACCESS COALITION IN RESPONSE TO THE FURTHER NOTICE OF PROPOSED RULEMAKING

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SUMMARY

The Information Technology Association of America ("ITAA") and the Internet Access Coalition ("Coalition") urge the Commission to reject the proposal, contained in the Further Notice of Proposed Rulemaking, to permit price cap local exchange carriers ("LECs") to assess a Primary Interexchange Carrier Charge ("PICC") on special access lines.

Two analyses, prepared by the Joint Commenters, demonstrate that there is no danger that the rate structures adopted in the Access Charge Order will result in the migration of multi-line business customers from the public switched telephone network. The first analysis shows that the increase in the SLC cap and the imposition of the PICC will not increase the price paid by typical business customers by an amount that is large enough to make it economically rational for them to move from switched to special access service. The second analysis demonstrates that the Commission's decision to reduce the originating-end common carrier line charge from 2.8 cents to 2.5 cents per minute, on balance, will decrease the access costs paid by typical multi-line business users and, therefore, eliminate their incentive to abandon the PSTN.

Even if there were a danger of business customer migration, however, imposition of a PICC charge on special access lines provided by price cap LECs would not prevent it from occurring. The proposal would apply only to incumbent local exchange carriers subject to price cap regulation. Consequently, ILEC business customers that choose to leave the PSTN would migrate to special access services provided by competitive access providers.

The Commission's special access PICC proposal must be seen for what it is: an effort to create a new subsidy by which interexchange carriers that access their customers using special access lines would be obligated to subsidize residential switched access customers' local

loop costs. The imposition of such an obligation solely on IXCs would violate Section 254 of the Communications Act. Unlike the switched access PICC, the proposed special access PICC cannot be justified as either a "cost-causative" cost recovery mechanism or an effort to "eliminate" existing subsidies.

Imposition of a special access PICC would have a serious adverse effect on incumbent special access customers. In particular, adoption of this proposal would substantially increase the costs of many Internet and other Enhanced Services Providers, which rely heavily on special access lines. This, in turn, would artificially dampen consumer demand for these services.

The adverse effect of the Commission's proposal would be especially severe if the agency were to impose the PICC based on the number of voice-grade equivalent channels that could be derived from a given special access line. If adopted, this approach would raise the average cost of an urban T-1 line from $500 to $566 per month -- an increase of 13.2 percent. The effects would be even more severe on customers who use T-3 access lines, which would increase from an average of $5,550 per month to $7,348 -- an increase of a 33.6 percent. Overall, special access customers would be required to pay a 580 million dollar "tax" in 1998. This result is neither necessary, nor in the public interest.

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Joint Comments of the Information Technology Association of America and the Internet Access Coalition

INTRODUCTION

The Information Technology Association of America ("ITAA") and the Internet Access Coalition ("Coalition") urge the Commission to reject the proposal, contained in the Further Notice of Proposed Rulemaking, to permit price cap local exchange carriers ("LECs") to assess a Primary Interexchange Carrier Charge ("PICC") on special access lines.[1] As demonstrated below, the Commission's justification -- that imposition of this charge is necessary

[1] See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, Further Notice of Proposed Rulemaking, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, FCC 97-158, ¶¶ 403-06 (rel. May 16, 1997) ("Further Notice").

to prevent the migration of a significant number of multi-line business customers from the public switched network to special access lines -- is fundamentally at odds with the available evidence.

Adoption of the special access PICC proposal would create a new subsidy, in violation of Section 254 of the Communications Act, under which revenue from special access services would be used to subsidize single-line residential switched access customers' local loop costs. Moreover, imposition of a PICC would have an adverse effect on current special access customers, including Internet and other Enhanced Service Providers. The effect would be especially severe if the charge is imposed on a "per voice-grade equivalent channels" basis. Such an approach would constitute the imposition of a $580 million per year tax on these users.

STATEMENT OF INTEREST

The Information Technology Association of America is one of the principal trade associations of the Nation's information technology companies. Together with its twenty-five affiliated regional technology councils, ITAA represents more than 9,000 companies throughout the United States. ITAA's member companies provide the public with a variety of information services.

The Internet Access Coalition was founded in 1996, and has participated actively in all phases of the Commission's Access Charge proceeding. The Coalition consists of associations[2] and companies[3] that represent all segments -- hardware, software, and services

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2 Internet Access Coalition member associations include the American Electronics Association, the Business Software Alliance, the Consumer Electronics Manufacturers Association, the Information Technology Association of America, the Information Technology Industry Council, the Internet Service Providers and Users Association, the Software Publishers Association, and the Voice on the Net Coalition.

-- of the Information Technology industry. The Coalition is dedicated to maintaining the affordability of consumer access to the Internet and other information services, and accelerating the deployment of efficient, affordable, and reliable broadband data communications services.

ITAA and the Coalition welcome the Commission's recognition, in its recent Access Charge Order, of the need to avoid imposition of regulation that could thwart the continued growth of the Internet and other information services.[4] ITAA and the Coalition are concerned, however, that adoption of the proposal contained in the Further Notice could impede further development of these "still evolving" services by needlessly raising the cost of special access lines that many Internet Access Providers and other Enhanced Service Providers rely on to provide service to their customers.

I. IMPOSITION OF A SPECIAL ACCESS PICC IS NOT NECESSARY TO PREVENT MIGRATION FROM THE PUBLIC SWITCHED NETWORK

In the Further Notice, the Commissions expresses concern that the new charges imposed on multi-line business customers in the Access Charge Order may lead to a "migration" by some of these customers "from the public switched network to special access." This, the Commission warns, would result in the remaining switched access customers having to pay

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[3] Internet Access Coalition member companies include America Online Incorporated, Apple Computer, Inc., Compaq Computer Corporation, CompuServe Incorporated, Dell Computer Corporation, Digital Equipment Corporation, EarthLink Network, Inc., Eastman Kodak Company, GE Information Services, IBM Corporation, Intel Corporation, Microsoft Corporation, Netscape Communications Corporation, Novell, Inc., Oracle Corporation, and Sun Microsystems, Inc.

[4] See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, First Report and Order, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, FCC 97-158, ¶¶ 344-48 (rel. May 16, 1997) ("Access Charge Order").

higher PICCs -- thereby jeopardizing the agency's ability to make the transition to a cost-based access charge system.[5] In order to prevent this from happening, the Commission proposes to allow price cap LECs to impose a $2.75 per month PICC on special access lines.[6]

As demonstrated below, there is no danger that the rate structures adopted in the Access Charge Order will result in the migration of multi-line business customers from the public switched telephone network ("PSTN"). Even if there were a danger of business customer migration, however, imposition of a PICC charge on special access lines provided by price cap LECs would not prevent it from occurring.

A. There is No Danger That the Rate Structures Adopted in the Access Charge Order Will Cause a Significant Number of Multi-Line Business Customers to Abandon the PSTN

Today, the overwhelming majority of business customers purchase switched access service. There are sound reasons for their decisions. Many local exchange carriers continue to price special access services at above-cost levels in order to deter migration from the PSTN.[7] As a result, the price that almost all business customers now pay for switched access is

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5 See Further Notice ¶¶ 401-02 & 404.

6 Id. at ¶ 403.

7 In a series of investigation in the late 1980s, the Commission concluded that the incumbent LECs had set rates for special access tariffs at levels "designed not only to recover actual cost," but to "discourag[e] bypass of switched access services." Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd 6786, 6815 (1990) ("LEC Price Cap Order"). While special access rates declined in the early 1990s, they have been increasing in recent years, despite significant decreases in the cost of these facilities. As a result, many observers believe the incumbent LECs continue to set these rates significantly above cost.

significantly less than the price of the least expensive special access service.[8] Moreover, the cost for these customers to move from switched to special access would be significant.[9]

The Access Charge Order contains two rate structure changes -- the increase in the SLC cap and the imposition of the PICC -- that will increase the price paid by some multi-line switched access business customers. However, as demonstrated below, these changes will not increase the price paid by typical business customers by an amount that is large enough to make it economically rational for them to move from switched to special access service.

Subscriber Line Charge. The Access Charge Order raises the Subscriber Line Charge cap applicable to multi-line business customers from the current $6 to $9 per month. Nonetheless, as the Commission has recognized, more than half of all multi-line business switched access customers have interstate loop costs of less than $6 per month. Consequently, the Commission's action will result in no increase in these customers' SLCs.[10] Many of the remaining business customers will see increases of substantially less than three dollars. Indeed, the Commission has estimated that the average business SLC will be $7.60 in 1998.[11]

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8 The average tariffed rate for a five-mile T-1 special access line is approximately $500 per month. Businesses with fewer than 100 employees -- which constitute almost 98 percent of all businesses -- typically pay significantly less than this for local switched access service.

9 Analysis of the tariffs on file at the FCC shows that the average non-recurring cost to deploy a T-1 line is $896.50. Pacific Telesis' tariff provides for a one-time charge of $1,267, while BellSouth charges $1,889.94.

10 See Access Charge Order ¶ 80.

11 Commission Reforms Interstate Access Charge System, Report No. CC 97-23, Attachment (May 7, 1997) ("Access Charge News Release").

Primary Interexchange Carrier Charge. The Order also imposes a $2.75 Primary Interexchange Carrier charge on switched access lines used by multi-line business customers. These charges, it must be noted, will be imposed on interexchange carriers ("IXCs") -- which are under no obligation to pass the cost of the PICC on to their business customers. Even if they do, the rules adopted by the Commission provide that the multi-line business PICC will decline as residential and single-line business customers assume an increasing share of the cost of the local loop. As a result, the Commission anticipates that by 2001 the multi-line business PICC will be only $1 per month.[12]

An analysis prepared by the Joint Commenters demonstrates that the new rate structures imposed by the Access Charge Order will not alter business customers' decisions as to whether to use switched or special access.[13] The analysis compares two typical, medium-sized companies. Under current regulations, Company A, which has 116 employees and 4 switched access lines, is likely to spend $435 per month on switched local access service. In contrast, Company B, which has 159 employees and 5 switched access lines, is likely to spend $578 per month on this service. At the present time, the average cost of an urban T-1 line is $500 per month.[14] In addition, the average one-time installation charge for a T-1 line is $896.50. At these prices, Company A (which pays $435 per month) plainly will continue to use switched access. Company B (which is paying $578 per month) is likely to shift to special

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12 Id.

13 See Comparative Analysis of the Impact of the Multi-Line Business SLC and PICC on Two Medium-Sized Companies, attached as Appendix One.

14 See, supra, n.9.

access, but will have to wait for nearly one year before the monthly savings compensate for the "up front" installation charge.

As the analysis demonstrates, the Commission's decisions in the Access Charge Order is not likely to change either companies' decision. Implementation of the Order will result in Company A experiencing a $17.40 per month increase in costs, to $452.40 per month, in 1998.[15] Company A will no doubt be unhappy about this increase. However, if the cost of a T-1 is at least $500, and if installation charges average $896.50, the company is not likely to leave the PSTN. This is especially likely if Company A considers that, by 2001, the price that it pays for switched access is likely to fall to $445.40.[16] Company B, in contrast, will continue to use special access.

The effects of the SLC cap increase and the imposition of the PICC cannot be considered in isolation. The Access Charge Order made additional rate structure changes that, on balance, will decrease the incentive for multi-line business users to abandon the PSTN. For example, large business customers have long objected that the per-minute common carrier line charge ("CCLC") imposed on interexchange carriers are passed on, in disproportionate amounts, to high-volume business customers. As a result of the Order, in 1998, the cost of the originating

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15 This calculation assumes that Company A has four switched access lines, that its SLC increases by $1.60 to $7.60 per line per month (the nationwide average), that the 1998 multi-line business PICC is $2.75, and that its interexchange carrier passes on the entire cost to the customer.

16 This calculation assumes that Company A has four switched access lines, that its SLC increases by $1.60 to $7.60 per line per month (the nationwide average), that the 2001 multi-line business PICC is $1.00, and that its interexchange carrier passes on the entire cost to the customer.

CCLC will fall from the current average of 2.8 cents per minute to 2.5 per minute.[17] Consequently, as the Commission itself has recognized:

> [T]he rate structure modifications [adopted in the Access Charge Order will] benefit the majority of multi-line customers through reductions in per-minute long distance rates. . . . [F]or many customers, access restructuring will lead to an overall reduction in their telephone bill.[18]

This assessment is supported by a second analysis prepared by the Joint Commenters.[19] The analysis demonstrates that -- as a result of the decrease in the CCLC -- virtually all multi-line business customers will have lower monthly access costs. The Commission, therefore, has no basis for its assertion that the Access Charge Order will create incentives for business users to abandon the PSTN is such large numbers that it would jeopardize the agency's ability to move towards cost-based access charges. Consequently, it cannot justify imposition of a special access PICC.

B. Allowing Price Cap LECs to Impose a Special Access PICC Would Not Deter Migration from the PSTN

Even if the Commission were able to demonstrate that, as a result of the Access Charge Order, a significant number of multi-line business customers will desert the PSTN, the "solution" proposed in the Further Notice suffers from a fatal defect. The Commission's proposal would apply only to incumbent local exchange carriers subject to price cap regulation;

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17 See Access Charge News Release.

18 See Access Charge Order ¶ 80.

19 See Analysis of the Full Impact of the Rate Structure Changes in the Access Charge Order on Business Customers, attached as Appendix Two.

competitive access providers would not be obligated to impose a comparable charge.[20] The result is obvious: ILEC business customers that choose to leave the PSTN would migrate to special access services provided by competitive access providers.[21]

Faced with this occurrence, the Commission would no doubt be confronted with calls from the incumbent LECs to require competitive access providers to impose special access PICCs. Were it to accede to these requests, the Commission would be extending the market-distorting subsidies that have long-characterized the local exchange market to a new category of service providers. Rather than taking the first step down this road, the Commission should decline to impose PICCs on special access lines.

II. IMPOSITION OF A SPECIAL ACCESS PICC WOULD VIOLATE SECTION 254 OF THE COMMUNICATIONS ACT

The Commission's special access PICC proposal plainly cannot be justified as an effort to prevent migration from the PSTN to private networks. Rather, the proposal must be seen for what it is: an effort to create a new subsidy by which interexchange carriers that access their customers using special access lines would be obligated to subsidize residential switched access customers' local loop costs.[22] The imposition of such an obligation solely on IXCs

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20 See Further Notice ¶ 406.

21 See Access Charge Order ¶ 75 (noting that, if non-cost-based rate structures are imposed on incumbent LECs "new entrants, which are not subject to the non-cost-causative rate structure requirements, would be in a position to target the incumbent LECs' most profitable, high volume customers based on regulatory requirements").

22 Presumably, most IXCs will "pass on" the PICC to their customers. (Where the customer has not designated a primary interexchange carrier, the ILEC will assess the PICC directly on the end-user.) Because as many as 80 percent of all special access customers use these facilities to carry data traffic, adoption of the Commission's proposal

would violate Section 254 of the Communications Act, which directs the Commission to replace the existing system of implicit subsidies with a regulatory regime in which universal service is funded through "equitable and nondiscriminatory contribution[s]" paid by all telecommunications service providers.[23]

There are significant differences between the switched access PICC adopted in the Access Charge Order and the special access PICC proposed in the Further Notice. In the Access Charge proceeding, the Commission concluded that the switched access PICC does not violate Section 254 -- even though it imposes a charge solely on IXCs, rather than on all telecommunications service providers. The switched access PICC, the agency found, is "not a universal service mechanism, but rather a flat-rated charge that recovers local loop costs in a cost-causative manner."[24] The Commission went on to assert that, because the flat-rate PICC will raise revenue that otherwise would have been generated through the usage-sensitive PICC, adoption of this approach constituted a "move to eliminate subsidies built in to the current rate structure."[25]

The Commission cannot use the same arguments to defend the proposed special access PICC. Under the Commission's proposal, interexchange carriers that use ILEC-provided special access lines to reach their customers would be required to contribute revenue to the ILECs' common line basket. An IXC's use of special access lines, however, does not generate

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ultimately would constitute a subsidy from data services users to voice service users.

23 47 U.S.C. § 254(b)(4).

24 Access Charge Order ¶ 104.

25 Id. at ¶ 105.

any of the common line costs. The Commission's proposal, therefore, cannot be justified as "cost-causative." Nor can this approach be justified as a move to "eliminate" subsidies. To the contrary -- as the Commission acknowledges -- it constitutes "a departure from established Commission practice that special access will not subsidize other services."[26] While Section 254 may not require the immediate elimination of all existing universal service subsidies, Congress plainly did not intend for the Commission to impose new ones.[27]

III. IMPOSITION OF A SPECIAL ACCESS PICC WOULD HAVE A SEVERE ADVERSE EFFECT ON CURRENT SPECIAL ACCESS USERS, ESPECIALLY IF THE CHARGE IS IMPOSED ON A "PER DERIVED CHANNEL" BASIS

Imposition of a special access PICC would have a serious adverse effect on incumbent special access customers. In particular, adoption of this proposal would substantially increase the costs of many Internet and other Enhanced Services Providers, which rely heavily on special access lines. This, in turn, would artificially dampen consumer demand for these services. This proposal also might deter ESPs/ISPs from moving data traffic off the PSTN, even when this would be the most technically and economically efficient solution.

The adverse effect of the Commission's proposal would be especially severe if the agency were to impose the PICC based on the number of voice-grade equivalent channels that could be derived from a given special access line. Under the Access Charge Order, a "per derived channel" approach is to be used in situations in which a carrier chooses to satisfy a

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26 Further Notice ¶ 404.

27 See 47 U.S.C. § 254(e) ("After the date on which the Commission regulations implementing this section take effect . . . any [universal service] support should be explicit . . . .").

customer's request for voice-grade switched access service by deploying a high-capacity line and using a premises-based multiplexer to derive voice-grade channels.[28]

The Commission has recognized that the "per derived channel" approach should not be used in all situations. For example, in the Access Charge Order, the Commission determined that it would not apply this approach to ISDN access lines. ISDN customers, the Commission reasoned, use their access lines in a different manner than do customers who seek to obtain individual voice-grade channels. The imposition of a per derived channel approach, the agency added, would result in ISDN users paying significantly above-cost charges, which would deter efficient use of the service.[29]

The same considerations argue against application of a per derived channel approach to special access lines. Most customers purchase special access service to facilitate the high-speed transmission of data -- not to derive voice-grade channels. Consequently, it would be inappropriate to treat these customers in the same manner as customers that are seeking to obtain individual voice-grade circuits. Moreover, imposing a PICC on each voice-grade channel that hypothetically could be derived from a special access line also would result in prices that are significantly above cost. For example, a 1.544 Mbps T-1 line can support 24 derived voice-grade channel. If the Commission were to mandate the imposition of one PICC for each

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28 In such cases, the Commission has reasoned, the customer neither knows nor cares that it is being provided voice-grade service using derived channels. Therefore, the Commission has concluded that it is appropriate for the customer to pay the same SLCs and PICCs as a customer who receives voice-grade service using individual voice-grade access lines. See generally Access Charge Order ¶ 120 (describing the Commission's "per derived channel" approach).

29 See Access Charge Order ¶ 115 (declining to impose SLC or PICC on ISDN lines on a per derived channel basis).

voice-grade equivalent channel, T-1 access customers would be required to pay an additional $66 per month.[30] Assuming a current tariffed rate of approximately $500, this would represent a 13.2 percent increase.

The effects would be even more severe on customers who use 44.736 Mbps T-3 access lines. The average tariffed rate for a T-3 access line is approximately $5,500 per month. The capacity of a T-3 line is equivalent to 672 voice-grade channels. If the Commission were to mandate the imposition of one PICC for each voice-grade equivalent channel, T-3 access customers would be required to pay an additional $1,848 per month -- an increase of 33.6 percent.[31]

The aggregate cost of this approach would be significant. According to data compiled by the Commission, local exchange carriers have deployed special access lines with a capacity equivalent to 17.6 million voice-grade circuits.[32] If the Commission were to impose a $2.75 charge on each voice-grade equivalent circuit, special access customers would be required to pay a <u>580 million dollar</u> "tax" in 1998.[33] The end-result would be to artificially

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30 This figure is calculated by multiplying $2.75 (the 1998 multi-line business PICC charge) by 24, and assumes that serving customer's IXC would pass these charges on to the customer.

31 This figure is calculated by multiplying $2.75 (the 1998 multi-line business PICC charge) by 672, and assumes that serving customer's IXC would pass these charges on to the customer.

32 <u>See</u> Statistics of Communications Common Carriers, Table 2.5 (1996).

33 This figure is calculated by multiplying 17.6 million voice-grade equivalent lines X the $2.75 per month PICC X 12 months.

dampen demand for special access services. Such a result is neither necessary, nor in the public interest.

CONCLUSION

For the foregoing reasons, the Commission should reject the proposal contained in the Further Notice, and should not impose a Primary Interexchange Carrier Charge on special access lines.

Respectfully submitted,

INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

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APPENDIX ONE

COMPARATIVE ANALYSIS OF THE IMPACT OF THE MULTI-LINE BUSINESS SLC AND PICC ON TWO MEDIUM-SIZED COMPANIES

	Company A	Company B
Number of Employees	116	159
Number of Access Lines	4	5
Minutes of L/D Use Per Circuit	2,445	2,700
1997 Flat-rate Line Charge	$40.00	$40.00
1997 Switch Access Cost	$68.70	$75.60
1997 Cost of Switched Access	$435.00	$578.00
1998 Switched Access Cost	$452.40	$599.75
Increase Over 1997	$17.40	$21.75
2001 Switched Access Cost	$445.40	$591.00
(Decrease from 1998)	($7.00)	($8.75)
Cost of Urban T-1 Line (Monthly)	$500.00	$500.00
Installation Costs (Non-recurring)	$896.50	$896.50
1997 Service Choice	Switched	Special
1998 Service Choice	Switched	Special
2001 Service Choice	Switched	Special

ANALYSIS: COMPANY A

1997: Company A has 116 employees, who make an average of 85 minutes of long distance calls per month. In order to achieve a non-blocking rate of 95 percent, Company A has obtained four switched access lines, for which it pays a flat-rate charge of $40 per line per month (including the subscriber line charge). On average, each circuit has a busy hour load of 9.4 CCS, which accounts for 14% of all monthly calling. This yields a total of 2,445 long distance minutes of use per circuit per month. Assuming that Customer A's interexchange carrier pays originating access charges of 2.8 cents per minute, and that it passes these costs on to its customers, Company A will pay a per circuit charge of $68.70 per month. This yields a monthly charge of $435.40 [4 access lines X ($40 flat rate charge + $68.70 access charge)]. If the cost of the least expensive special access T-1 line is $500 per month, Company A will use switched access.

1998: As a result of the Access Charge Order, Company A's subscriber line charge will increase by $1.60 per line per month (assuming that its loop costs are equal to the nationwide average). In addition, the company's IXC will pay a PICC of $2.75 per month for each of the company's access lines. The IXC presumably will pass this cost on to the customer. Together, this will CAUSE Company A's monthly cost for local access to increase by $17 [4 access lines X ($1.60 SLC increase + $2.75 PICC)]. This will result in Company A paying $452.40 per month. The average cost of the least expensive T-1 line is $500 per month. Moreover, the estimated one-time cost for Customer A to move to special access would be $896.50. As a result, Company A will continue to use switched access.

2001: As a result of the rules adopted in the Access Charge Order, the PICC paid by Company A's IXC will decline from $2.75 to $1 per line per month. Assuming that the IXC passes these savings on to its customers, Company A's cost for local access will fall by $7 [4 lines X ($2.75 - 1.00)], to $445.50 per month. Company A will continue to use switched access.

ANALYSIS: COMPANY B

1997: Company B has 159 employees, who make an average of 85 minutes of long distance calls per month. In order to achieve a non-blocking rate of 95 percent, Company B has obtained five switched access lines, for which it pays a flat-rate charge of $40 per line per month (including the subscriber line charge). On average, each circuit has a busy hour load of 10.3 CCS, which accounts for 14% of all monthly calling. This yields a total of 2,700 minutes of use per circuit per month. Assuming that Customer A's interexchange carrier pays originating access charges of 2.8 cents per minute, and that it passes these costs on to its customers, Company B will pay a per circuit charge of $75.60 per month. This yield a monthly charge of $578.00 [5 access lines X ($40 flat rate charge + $75.60 access charge)]. If the cost of the least expensive special access T-1 line that is appropriate for Company B is $500 per month, Company B is likely replace its switched access service with a special access line. If the one-time cost to move from switched to special access is $896.50, Company B will recover this cost in approximately 11.5 months.

1998: As a result of the Access Charge Order, Company B's subscriber line charge will increase by $1.60 per line per month (assuming that its loop costs are equal to the nationwide average). In addition, the company's IXC will pay a PICC of $2.75 per month for each of the company's access lines. The IXC presumably will pass this cost on to the customer. Together, this will cause Company B's monthly cost for local access to increase by $21.75 [5 access lines X ($1.60 SLC increase + $2.75 PICC)]. This will result in Company B paying $599.750 per month. If the cost of the least expensive T-1 line is $500 per month, Company B will continue to use special access.

2001: As a result of the rules adopted in the Access Charge Order, the PICC paid by Company B's IXC will decline from $2.75 to $1 per line per month. Assuming that the IXC passes these savings on to its customers, Company B's cost for local access will fall by $8.75 [5 lines X ($2.75 - 1.00)], to $591.00 per month. Company B will continue to use special access.

CONCLUSION

The FCC's decision, in the Access Charge Order, to increase the SLC cap for multi-line business customers to $9.00 per month, and to impose a $2.75 per month PICC on each switched access line that serves a multi-line business customer will not alter the purchasing decisions of typical medium-sized business customers. Businesses that concluded that it was economically rational to use switched access service in 1997 will continue to use that service, rather than migrating to special access.

NOTE: This analysis does not consider the increased benefits of remaining on the PSTN that will result from other aspects of the Access Charge Order, such as the decreased use of usage-sensitive rate structures and the over-all decrease in the level of access charges.

APPENDIX TWO

ANALYSIS OF THE FULL IMPACT OF THE RATE STRUCTURE CHANGES IN THE ACCESS CHARGE ORDER ON BUSINESS CUSTOMERS

CIRCUITS	EMPLOY'S	MIN/CIR.	ACCESS PER CIR.	ACCESS (1997)	SLC/PICC INCREASE	CCLC DECRS.	ACCESS (1998)	CHANGE (97-98)
2	34	1147	$40.50	$161.00	$8.70	$6.88	$162.88	$1.82
3	69	1965	$55.00	$285.10	$13.00	$17.69	$280.41	($4.69)
4	116	2445	$68.70	$435.00	$17.40	$29.34	$423.06	($11.94)
5	159	2700	$75.60	$578.00	$21.80	$40.50	$559.30	($18.70)
6	276	3906	$109.40	$896.20	$26.10	$70.31	$851.99	($44.21)
7	371	4509	$126.30	$1163.80	$30.40	$94.69	$1099.51	($64.29)
8	441	4688	$131.30	$1370.10	$34.80	$112.51	$1292.39	($77.71)
9	516	4871	$136.40	$1587.50	$39.10	$131.52	$1493.08	($94.42)
10	592	5029	$140.80	$1808.10	$43.50	$150.87	$1700.73	($107.37)
11	668	5160	$144.50	$2029.30	$47.80	$170.28	$1906.82	($122.48)
12	742	5254	$147.10	$2245.30	$52.20	$189.14	$2108.36	($136.94)
19	1353	6051	$169.40	$3979.10	$82.70	$344.90	$3716.90	($262.20)
25	1920	6527	$182.80	$5568.80	$108.90	$489.53	$5188.17	($380.63)
50	4048	6881	$192,70	$11,633.40	$217.50	$1032.15	$10,818.75	($814.65)

ANALYSIS OF THE FULL IMPACT OF THE RATE STRUCTURE CHANGES IN THE ACCESS CHARGE ORDER ON BUSINESS CUSTOMERS

ANALYSIS

The analysis demonstrates that, for virtually all multi-line business customers, the changes made in the Access Charge Order will result in the price of switched access service decreasing between 1997 and 1998. Indeed, the only customers who are likely to see increased charges are firms with two business lines. Such firms, however, are too small to make it economically rational to migrate to special access. Therefore, the Access Charge Order is likely to result in few -- if any -- customers migrating from switched to special access.

The above chart shows, for representatives businesses: the number of circuits; the number of employees; the number of minutes of use per month per circuit; the usage-sensitive access charge per circuit per month in 1997; the estimated total access costs per month in 1997; the increased costs in 1998 that will result from raising in the multi-line business SLC cap and imposing of a $2.75 multi-line business customer PICC; the decrease in the CCLC in 1998; and the over-all effect that the changes in the Access Charge Order will have on multi-line business customers' 1998 local access costs.

The analysis is based on typical facilities deployment and service use by companies of various sizes. The analysis is based on the following assumptions: employees make an average of 85 minutes of long distance calls per month; 14% of all calls are made during the busy hour; the companies' seek to achieve a non-blocking rate of 95 percent; the flat-rate price of a switched access lines is $40 per line per month (including the subscriber line charge); in 1997 interexchange carriers will pay originating access charges of 2.8 cents per minute, which they will "pass on" to their customers; in 1998, the average multi-line business customer's SLC will increase from $6.00 to $7.60 per month; IXCs will pass on the $2.75 per line PICC charge to their customers; the CCLC will fall to 2.5 cents per minute in 1998; and IXCs will pass on the CCLC decrease to their customers.